MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T2, 2018/ 2019

BAM7014 – ACCOUNTING FOR MANAGERS

(MBA Full Time)

24 JANUARY 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SIX (6)** pages (including the cover page) with **FOUR (4)** questions.

2. Answer **ALL** questions. The marks distributions are given in parentheses.

3. Write all your answers in the **Answer Booklet** provided.

QUESTION 1 (25 marks)

PART A

Since last decade, many companies in Malaysia have applied Activity-Based Costing. Asia Electronic Products Bhd has also applied ABC from 2016. In the implementation of ABC, the company was assisted by one of the Big4 audit firms in Malaysia. The company produces two main electronic products: high quality digital camera and display devices. These products have been in high demands both locally and in the oversee markets.

Mr. Tan Chong, the production manager reported that during January 2019, 192,000 digital cameras and 144,000 display devices were produced. The company had incurred a total of RM816,000 overhead costs in this production. The accounting department in consultation with production department also reported the following additional information on overhead cost:

Activity	Cost Driver	Total Cost in RM
Quality inspections	Number of inspections	360,000
Materials handling	Number of requisitions	168,000
Machine setups	Number of setups	288,000

For each product, the cost driver was as follows:

Cost Driver	Digital Camera	Display Devices	Total
No. of inspections	2,160	3,840	6,000
No. of requisitions	600	360	960
No. of setups	288	312	600

Required:

a. Explain the appropriate situations, when a manufacturing company should apply Activity-Based Costing?

(6 marks)

b. For each activity mentioned in the problem, compute the overhead rate.

(6 marks)

c. Using Activity-Based Costing, assign the manufacturing overhead cost for January, 2019 to the two products namely, digital camera and display devices and determine the overhead cost per unit.

(9 marks)

Continued..

PART B

With examples, differentiate between product and period costs.

(4 marks)

(Total marks 25)

QUESTION 2: (25 marks)

PART A

Bushra Products Bhd has a number of divisions, including Delta Division and ListenNow Division. The ListenNow Division owns and operates a line of MP3 players. Each year, the ListenNow Division purchases component AZ in order to manufacture the MP3 players. Currently it purchases this component from an outside supplier for RM6.50 per component. The manager of the Delta Division has approached the manager of the ListenNow Division about selling component AZ to the ListenNow Division. The full product cost of component AZ is RM3.10. The Delta Division can sell all of the components AZ it makes to outside companies for RM6.50. The ListenNow Division needs 18,000 component AZs per year; the Delta Division can make up to 60,000 components per year.

Required:

i. Which division sets the maximum transfer price? Which division sets the minimum transfer price?

(3 marks)

ii. Suppose the company policy is that all transfer take place at full cost. What is the transfer price?

(2 marks)

iii. Assume that the company policy is that all transfer prices are negotiated by the divisions involved:

a. What is the maximum transfer price? Which division sets it?
b. What is the minimum transfer price? Which division sets it?
c. If the transfer takes place, what will be the transfer price?

(8 marks)

PART B

Explain the differences between centralized and decentralized decision making. Also list some of the reasons why a company would choose to decentralize?

(11 marks)

(Total marks 25)

Continued..

QUESTION 3: (25 marks)

PART A

Asia Pacific Company Bhd was established by leading Al Shain group in 2006 and it is having collaborations with well known companies from Taiwan and Tailand. Currently, it employes about 22,000 emplyees. The company is well known for its high tech applications. It produces a mass-storage system. It is claimed that the design of its facmous product Delpha system is unique and represents a breakthrough in the industry. The unit Delpha produces combine positive features of both compact and hard disks. The company is completing its 13th year of operations and is preparing to build its master budget for the coming year 2019. The company has a participative system of budgeting in which all departtmental and unit managers are involved. The budget will detail each quarter's activity and the activity for the year in total.

You are provided the following information only related to cash budget. As is the case for other high tech companies, the preparation of cash budget is very important for this company for various reasons and it wants to avoid any cash crises with in the company. The financail controls are followed rigorously in the compay.

Furthermore, the company is expecting total collections from its customers for the first quarter of 2019 of RM10,800,000. The expected payments for raw materials for the first quarter of 2019 is likely to be RM2,460,000. As on 31 st December 2018, the company is expecting an ending cash balance of RM1,800,000. Furthermore, the company management wants to maintain a minimum cash balance of RM1,500,000 in each quarter in order to avoid any cash crisis. Also, the company plans to sell its investments in Joshi International Company for RM800,000 during first quarter of 2019. The company has a policy to borrow from May Bank for any cash deficit it faces in each quarter. The following are other additional information:

	RM
Purchase of securities	3,400,000
Sale of old equipments	400,000
Payment to direct labor	4,200,000
Purchase of computers	200,000
Factory overhead	2,100,000
Selling expenses	1,400,000
Administrative expenses	1,300,000
Loan to employees for purchase of vehicles	400,000

Required:

You being an expert in budgeting. Asia Pacific Company Bhd has asked you to help its managers in preparing a cash budget for the first quarter of 2019, based on the above information.

(15 marks)

Continued..

PART B

Ashley Finn is a new production manager. After a great deal of effort, including considerable market research, she completes her budget and submits it to her boss, Keith Payne. Without even looking at it, he asks her what her "fudge factor" was, and which items contained the most slack. Ashley, very surprised, responds that she doesn't use any "fudge factor," and that all her figures are honest. Mr. Payne counters by asking her how she would respond if she had to cut about 20% from her budget, as it is. He tells her that most budgets are trimmed in committee, and she had better be ready. He returns the budget to her, and tells her to come back with something reasonable.

Required:

1. Is it ethical to build slack into a budget? Explain.
2. Was it ethical for Mr. Payne to refuse to accept a budget without slack? Explain.

(10 marks)

(Total marks 25)

QUESTION 4: (25 marks)

PART A

Saraha Allamuddin Bhd was established in 2002 by Shanghai group as a manufacturing company. The company needs to determine if it would be cheaper to make 20,000 units of a component in house- or purchase them from an outside supplier for RM4.50 each.

The cost information on internal production includes the following:

	Total Cost (RM)	Unit Cost (RM)
Direct material	20,000	1.00
Direct labor	40,000	2.00
Variable overhead	16,000	0.80
Fixed overhead	88,000	4.40
Total	RM164,000	RM8.20

The company's fixed overhead includes RM20,000 of cost that can be avoided if the component is purchased from outside suppliers..

Required:

Explain which alternative is more cost effective and by how much?

(11 marks)

Continued..

PART B

Sokowana International Company located in Asian region produces a single product, called Optima electronic XY. Projected income statement for the coming year (2019) is as follows:

Sales (40,000 units @RM45)	RM1,800,000
Total variable cost	RM(1,044,000)
Contribution margin	RM756,000
Total fixed cost	RM733,320
Operating income	RM22,680

Required:

1. Compute the break-even sales in Ringgit

(3 marks)

2. What is the margin of safety in sales Ringgit?

(3 marks)

3. Compute the degree of operating leverage?

(3 marks)

4. Compute the new operating income if sales are 20% higher than expected.

(5 marks)

(Total mark 25)

End of the paper